

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton; and
Robert G. Taub

Notice of Classification and Price
Adjustments for Picture Permit Imprints

Docket No. R2012-7

ORDER APPROVING MARKET DOMINANT CLASSIFICATION AND PRICE
CHANGES FOR PICTURE PERMIT IMPRINT INDICIA

(Issued April 30, 2012)

I. INTRODUCTION

On March 28, 2012, the Postal Service filed a notice announcing its intent to implement Picture Permit Imprint Indicia (Picture Permit Imprint Indicia) as price categories for First-Class Mail Presorted Letters and Postcards and Standard Mail High-Density and Saturation Letters, Carrier Route, and Letters pursuant to 39 U.S.C. 3622 and 39 CFR 3010.¹ The classification and price adjustment would allow certain images, such as corporate or product logos, to be placed in the permit indicia area of those First-Class and Standard Mail products (Adjustment). *Id.* at 2, Attachment 1. The Adjustment is proposed to take effect on June 24, 2012 at 12:01 a.m. *Id.* at 1.

¹ United States Postal Service Notice of Market Dominant Classification and Price Changes for Picture Permit Imprint Indicia, March 28, 2012 (Notice).

In Order No. 1302, the Commission established Docket No. R2012-7 to consider the Postal Service's filing, set April 17, 2012 as the date for interested persons to submit comments on the Adjustment, and appointed a Public Representative to represent the interests of the general public in this proceeding.²

Comments were received from the Public Representative;³ the Association for Postal Commerce (PostCom);⁴ the National Postal Policy Council and the Major Mailers Association (NPPC-MMA);⁵ and Stamps.com.⁶

On April 23, 2012, the Postal Service filed a request to submit reply comments to the NPPC-MMA Comments⁷ along with its reply comments.⁸

II. PROPOSED ADJUSTMENT

A. Postal Service Filing

The Postal Service states that the Adjustment is a response to requests by customers seeking the ability to use corporate or product logos in the permit indicia space of an envelope. Notice at 2. It asserts that the Picture Permit Imprint Indicia is an innovative use of this space that will allow prospective customers the ability to brand and advertise their products and services on the mailpiece. *Id.* It states that such mailpieces have been tested in the mailstream, and it believes that limited use of the

² Order No. 1302, Notice and Order Concerning Market Dominant Classification and Price Changes for Picture Permit Imprint Indicia, March 29, 2012.

³ Public Representative Comments, April 16, 2012 (PR Comments).

⁴ Comments of the Association for Postal Commerce, April 17, 2012 (PostCom Comments).

⁵ Comments of the National Postal Policy Council and the Major Mailers Association, April 17, 2012 (NPPC-MMA Comments).

⁶ Comments of Stamps.com, April 17, 2012 (Stamps.com Comments).

⁷ Motion of the United States Postal Service Requesting Leave to Submit Reply Comments, April 23, 2012. The motion is granted.

⁸ Reply Comments of the United States Postal Service, April 23, 2012 (Postal Service Reply Comments).

permit indicia space of the mailpiece should be permitted at an appropriate price. *Id.* at 2-3.

The Postal Service's goals for the Adjustment are to keep mailers using the mail; to increase the interest of mail recipients; and to generate higher revenue through a per-piece charge over and above postage. *Id.* at 3. Market research by the Postal Service indicates that most mailers would use Picture Permit Imprint Indicia for existing volume, although some mailers said that they would increase their mailing volume. Nine percent of First-Class Mail commercial customers and 12 percent of Standard Mail customers responded that they would be willing to pay a small premium to use Picture Permit Imprint Indicia. The Postal Service will charge an additional one-cent per piece for First-Class Mail and two-cents per piece for Standard Mail for the use of Picture Permit Imprint Indicia. It will require all such mailings to use Full-Service Intelligent mail barcodes (IMbs) with each Picture Permit Imprint Indicia to be approved by the Postal Service. Mail customers will be responsible to defend against all legal charges for the use of the image should any such charges arise. *Id.*

B. Comments

Although the Adjustment is not opposed by any commenter, each commenter has expressed reservations about the Postal Service's proposal. The Public Representative voiced concerns about the pricing differential between First-Class Mail and Standard Mail. PR Comments at 2. PostCom questions whether any data or substantive pricing-related research has been presented to justify the prices on both First-Class Mail and Standard Mail. PostCom Comments at 1. NPPC-MMA also opposes the prices for both First-Class Mail and Standard Mail, stating that the prices are discouraging to mailers who have participated in the pilot program (for which the Postal Service did not impose any charge) and would create a disincentive for mailers to develop innovative uses of the mail. NPPC-MMA Comments at 1.

Finally, Stamps.com states that it already offers a similar product, "Customized Postage", which incorporates preferred imagery in the indicia. Stamps.com Comments

at 1. However, this product is not permitted to be used within any category of Standard Mail. *Id.* Stamps.com believes that if mailers are given the option to use the Postal Service's program for Standard Mail, this option should also be extended to users of Customized Postage. *Id.* at 3.

III. COMMISSION ANALYSIS

Workshare discounts. The Postal Service states, and the Commission agrees, that the Adjustment will not impact current workshare discounts. Notice at 8.

Preferred rates. The same prices will apply to nonprofit pieces entered as Standard Mail High-Density and Saturation Letters, Carrier Route, and Letters. *Id.* The Postal Service explains that based on the limited volumes expected to use the new price categories, it expects that the ratio between nonprofit and commercial prices will remain close to 60 percent, thus, meeting the statutory requirement in 39 U.S.C. § 3626(a)(6).

Prices. The Public Representative, PostCom, and NPPC-MMA have all expressed concerns about the prices that the Postal Service intends to charge as part of the Adjustment. The Public Representative states that a two-cent price may constitute too large a percentage increase for price-sensitive Standard Mail. PR Comments at 2.

NPPC-MMA opposes any Picture Permit Imprint Indicia price for either First-Class or Standard Mail, stating that mailers have invested over a year's worth of time and effort in the pilot program to develop this concept. NPPC-MMA Comments at 1. It states that charging for the Adjustment will send a discouraging signal to mailers and lead to a reduced use of the indicia. *Id.* It asserts that even without additional prices, the Postal Service benefits financially from the implementation of Picture Permit Imprint Indicia because it reduces the demand for pre-canceled presort stamps and shifts the cost of developing indicia on to the mailer. *Id.* at 3.

PostCom echoes the concerns about both classes, also expressing doubts about the IMb requirement, citing insufficient success in past IMb enrollment and suggesting

that the imposition of an additional fee may serve as a disincentive for mailers not already participating in the IMb program. PostCom Comments at 2.

The Postal Service responds to the NPPC-MMA comments by stating that it is not unusual to conduct operational testing of new programs to explore operational, administrative, and other issues without charging for new features. Postal Service Reply Comments at 1-2. Upon completion of the testing program, Postal Service management has concluded that the price is reasonable as Picture Permit Imprint Indicia should make mail more valuable. *Id.* at 2. It asserts that its decision to impose a price is permitted under the Postal Accountability and Enhancement Act (PAEA) and is a proper use of its pricing authority. *Id.*

The Commission notes that the Adjustment implements a voluntary program that the Postal Service seeks to make available only to mailers choosing to participate. The Commission finds no justification to substitute its judgment for that of the Postal Service in pricing this voluntary program.

Impact on price cap. The Postal Service asserts that the Adjustment has no impact on price cap issues because it merely adds new options and does not change the prices for any existing First-Class Mail or Standard Mail price categories. Notice at 3. The Commission agrees that, in this instance, the Postal Service is not required to adjust its billing determinants pursuant to 39 CFR 3010.23(d) because the pilot program was restricted to a small number of mailers in what appears to have been a very temporally and geographically limited test. The existence of a previous pilot program does not appear to mandate a change in the Postal Service's price cap calculations at this time.

Objectives and factors. The Postal Service states that the Adjustment does not substantially alter the degree that First-Class Mail and Standard Mail prices already address the objectives and factors in 39 U.S.C. 3622. *Id.* at 7-8. Specifically, the Postal Service notes that the promotion is an example of pricing flexibility (objective 4); encourages profitable mail volume that enhances the financial position of the Postal

Service (objective 5); encourages increased mail volume (factor 7); and does not imperil the ability of First-Class Mail or Standard Mail to cover attributable costs (factor 2). *Id.*

The Commission finds that the promotion is unlikely to materially alter the degree to which First-Class Mail and Standard Mail prices comply with the objectives and factors of 39 U.S.C. 3622.

Customized Postage product. Stamps.com states that it has advocated for making its Customized Postage product available to business mailers since its initial market test in 2004. Stamps.com Comments at 3. It explains that in 2007, it was allowed to offer its PhotoStamps® Customized Postage for First-Class presort mailings on a test basis and then in 2009, it was deemed a success and allowed to continue. *Id.* However, its proposals to offer this product in Standard Mail have not yet been accepted by the Postal Service. *Id.* The Commission encourages the Postal Service to continue its dialogue with Stamps.com regarding expanded use of this product.

IV. ORDERING PARAGRAPHS

It is ordered:

The Commission approves the implementation of Picture Permit Imprint Indicia as price categories for First-Class Mail and Standard Mail letters and cards set forth by the Postal Service in its Notice dated March 28, 2012.

By the Commission.

Shoshana M. Grove
Secretary